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TAGS: ETRD WTRO ECON PGOV UP

SUBJECT: EXPLAINING UKRAINE'S BURST OF ENERGY ON WTO

REF: A. KYIV 4304

1B. KYIV 4237

1C. KYIV 4183

1D. KYIV 4104

Classified By: AMBASSADOR, FOR REASONS 1.4 (B) AND (D)

11. (C) Summary: Ukraine's recent progress on WTO-related legislation does not mark a shift in GOU policy, but rather demonstrates that fears of the GOU's lack of commitment to prompt WTO accession were overblown. A fortuitous alignment of several political factors may have accelerated the process: President Yushchenko's surprise October 20 move to initiate the legislation helped to bring the issue front and center, while Prime Minister Yanukovych's upcoming visit to Washington gave the governing coalition an overriding reason to work quickly. The GOU also successfully used a period of public debate to show that opposition to WTO was limited, and received strong backing on the issue from the Parliamentary opposition. Fears that Russia could leapfrog Ukraine in joining the WTO, especially after the recent successful conclusion of the U.S.-Russia bilateral, and legislative horse-trading involving the budget may also have helped. Ukraine still faces several tall hurdles before reaching the WTO finish line, but it now seems to be back moving in the right direction. End Summary.

12. (C) Ukraine has made significant progress on WTO accession during the past several weeks, adopting 12 of 21 laws identified as required for accession and moving forward on several others (refs A-C). Such action was to be expected if the GOU was serious in its stated commitment to complete all preparations for accession in 2006. Nonetheless, cautious rhetoric and apparent stalling from PM Yanukovych and his team after they took power in August had raised doubts about the sincerity of that commitment. This recent progress on WTO therefore does not mark a shift in the GOU's policy but could have been hastened by several factors, outlined below in what post sees as the order of relative importance to the WTO effort.

Presidential Initiative

13. (C) The leadership of the Presidential Secretariat, spearheaded by First Deputy Chief of Staff and former Minister of Economy Arseniy Yatsenyuk, seems to have been a major catalyst in speeding up passage of WTO-related legislation. Sensing government delay in submitting the necessary bills to Parliament, the President forced the issue

by submitting a near-complete package of legislation to the parliament on October 20. At the time, Ministry of Economy officials were wading through a difficult Cabinet of Ministers clearance process, through which a wide range of interests were pushing hard to make their own changes to the draft laws. The President's surprise move forced the team of Prime Minister Viktor Yanukovych, which had already promised results on WTO, to either act on the legislation or openly block it.

Yanukovych Visit to Washington

¶4. (C) While the President's initiative set the stage for WTO progress, support by the PM's office was both necessary and decisive. Party of Regions and Socialist MPs, who had only weeks before spoken quite cautiously of WTO accession (ref C), suddenly expressed their absolute support and voted in favor of WTO-related legislation en masse. Yanukovych's planned visit to Washington in early December likely played an important part; it is clear that directions came from the top to coalition members to support WTO-related legislation. Socialist MP Ivan Bokiy noted to Econ Counselor on November 17 that the coalition government also felt responsible for providing deliverables prior to Yanukovych's trip and WTO legislation was one of those. The substantial progress on legislation now allows Yanukovych to dispel worries that he is going slow on WTO or trying to synchronize accession with Russia (ref D). While the third member of Yanukovych's "anti-crisis" coalition, the Communists, generally has opposed WTO legislation, even they apparently have been pressed not to block passage. On several occasions, the Communists allowed bills to pass in a single reading by simply not voting. Had they voted against, the bills would

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have had to wait for a second reading.

Public Consultations Helped Lay Groundwork

¶5. (C) The passage of eight WTO-related laws on one day, November 16, was not so much a surprise development as the conclusion of a deliberative process. The Yanukovych government had said since taking office that it would pursue WTO accession, but that it would consult first with industry to avoid unnecessary economic harm. As a result, during September and October the GOU held a series of public meetings with industry representatives in Kyiv and the regions. Both GOU officials and American technical advisers described these meetings as overwhelmingly positive, a substantive "education" process that also revealed that the chief WTO opponents consisted of only a few of the most inefficient industries, like sugar producers.

¶6. (C) The government was also determined to stage WTO "hearings" in Parliament, which took place on November 1, to allow MPs to publicly express their determination to help constituent industries. The hearings thereby gave MPs some political cover. Rather than delay the accession timetable as feared, these public meetings and hearings helped lay the groundwork for subsequent legislative action. Following submission by the President and GOU in October, the bills took roughly a month to go through Parliamentary proceedings, Committee review, and one or two rounds of voting. During this period, Ukraine's WTO negotiating team highlighted the tentative date of mid-December for the next WTO Working Party meeting to pressure MPs to make immediate progress.

Opposition Remains pro-WTO

¶7. (C) The positive role played by the opposition, especially Yulia Tymoshenko's bloc, has also been an important factor allowing for progress. Given the lack of strong public support for accession, Tymoshenko could have tried to score

political points by opposing WTO-related bills on the grounds that they would hurt the poor and economically vulnerable.

(Comment: Most observers believe the Ukrainian public neither strongly supports nor opposes WTO accession.)

Instead, her party joined pro-Presidential Our Ukraine to counterbalance the Communists' opposition to WTO within the governing coalition and to create substantial majorities in favor of the legislation.

The Bear in the Room

¶ 8. (C) Fears that Russia could join the WTO before Ukraine have also helped to push the GOU into action. GOU officials have said that they do not view the Russians as "competitors" when it comes to WTO accession (ref D), but common sense instructs otherwise. Russia has repeatedly played hardball in its trade relationship with Ukraine, be it with threats over energy supply or bans on Ukrainian products such as milk and meat. Talk of "synchronization" aside, most Ukrainians with whom we have discussed WTO did not want to see Russia join the WTO first, as this would allow Russia to make demands on Ukraine as part of its accession process. The news of the U.S.-Russian WTO bilateral seems to have galvanized some in the GOU not to dawdle on WTO. A concerned Socialist MP Bokiy specifically asked Econ Counselor on November 17 whether Russia might leapfrog Ukraine after signing its bilateral agreement with the United States. On November 9, following news that Vietnam had completed its accession negotiations, President Viktor Yushchenko similarly cautioned, "There are only two large countries outside the WTO - Russia and Ukraine. I do not want Ukraine to lag behind."

Backroom Deal over Budget

¶ 9. (C) Press reports surfaced in early November claiming that progress on legislation might reflect a deal between Yanukovych and Yushchenko, whereby Yanukovych would agree to push ahead with WTO accession in exchange for Yushchenko's support of the government's proposed budget. Regions MP Dmytro Sviatash hinted at such a deal to Econ Counselor on November 8. Thus far, however, Yushchenko has remained

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critical of the Yanukovych budget, and First Deputy Minister Azarov has already given ground to the Our Ukraine position on some procedural and substantive budget issues. These developments undercut suspicions of a WTO-for-budget agreement.

Mission Far From Accomplished

¶ 10. (C) Ukraine has put a real dent in the outstanding work required for accession with its action on outstanding legislation. Difficult issues, such as the bilateral agreement with Kyrgyzstan and negotiations over agricultural subsidies, remain unresolved, however. Some of the remaining legislation affecting the agricultural sector will also face stiffer opposition from some MPs. And there are signs that some of the bills already adopted by Parliament may not fully meet the expectations of Ukraine's WTO Working Party members, perhaps necessitating further Parliamentary amendments. At the moment, however, the GOU has given a strong signal it is seriously committed to completing the last lap on its long journey to the WTO.

Taylor